

# PROJECT TO CONSOLIDATE REFORM AND MODERNIZATION OF THE POTABLE WATER AND SANITATION SECTOR

(DR-0123)

## EXECUTIVE SUMMARY

<b>Borrower and guarantor:</b>	The Dominican Republic	
<b>Executing agency:</b>	<p>Secretaría Técnico de la Presidencia (STP) [Technical Secretariat of the Office of the President] through the potable water and sanitation reform executing unit (PWSREU) (paragraph 3.1), with the participation of the following operators: Corporación de Acueductos y Alcantarillado de Santo Domingo (CAASD), Corporación de Acueductos y Alcantarillados of Santiago (CORAASAN), Corporación de Acueductos y Alcantarillados of Moca (CORAAMOCA), Corporación de Acueductos y Alcantarillados of Romana (COAAROM) and Instituto Nacional de Agua Potable y Alcantarillados (INAPA) [National Potable Water and Sanitation Authority] (paragraphs 3.1 and 3.9). The Oficina Nacional de Política y Planificación de los Servicios de Agua Potable y Saneamiento (ONAPAS) [National Potable Water and Sanitation Services Policy and Planning Office] (the lead agency), and the Consejo Nacional de Regulación de Servicios de Agua y Saneamiento (CORSAS) [National Water and Sanitation Regulatory Council] (the regulatory agency) will also take part when the two become operational (paragraph 3.1).</p>	
<b>Amount and source:</b>	IDB: (OC)	US\$59.2 million
	OC/IFF:	US\$11.8 million
	Local counterpart:	<u>US\$18 million</u>
	Total:	US\$89 million
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Disbursement period:	5½ years
	Grace period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1% of the loan
	Credit fee:	0.75 %
	Currency:	US\$ from the single currency facility.

**Objectives:**

The main objective of the project is to provide potable water and sanitation services nation-wide with the coverage and quality levels established by the competent authority, at the lowest possible cost and under plans that are financially and environmentally sustainable. To achieve this objective, the project proposes that the companies operating the services act as private suppliers on competitive markets.

Specifically, the project is intended to transform the metropolitan companies (CAASD, CORAASAN, CORAAMOCA, COAAROM) into government-owned stock companies, with participation on their boards of directors by civil society, and to include the private sector through management contracts for CORAAMOCA and COAAROM. INAPA will gradually be decentralized into autonomous regional units. INAPA operating units capable of exercising financial autonomy will be identified and the management of rural water supply systems will gradually be transferred to users.

**Description:**

The project will finance management and coordination activities as well as the following three components: (a) demonstration and emergency works; (b) technical assistance; and (c) investments in infrastructure. Loan proceeds will be made available in three stages, subject to eligibility conditions, with a view to ensuring steady progress in reforming the sector.

a. Demonstration and emergency works (US\$8.6 million)

These investments will address some of the most visible and urgent problems in water and sanitation services, whose execution can be completed in under a year and will be accompanied by training in system management. They are intended to rapidly improve the operation of the systems and address critical sanitary needs, thereby gaining credibility for the companies and for the reform process. They will also serve to introduce new operating practices in the companies, marked by efficiency, quality and financial sustainability.

b. Technical assistance (US\$15.8 million)

This component is intended to strengthen the ability of service providers to perform in the new institutional and regulatory framework. Technical assistance will focus on modifying their corporate structure and better enabling their managers to meet the demands for operating and commercial efficiency typical of competitive companies. The goal is for the companies to develop

the following profiles:

- i. Their structure will give them managerial and financial independence so that the companies serving metropolitan areas can become stock companies. Each company will have bylaws establishing its independence and empowering its general shareholders meeting, board of directors, and managers to take decisions on the basis of operational and commercial considerations. CORAASAN, will be used as the model for each company to ensure participation in its board by civil society and municipal representatives and avoid political interference in its day-to-day management.
- ii. The management of each company will prepare a business plan which includes a program for the delivery of services, an investment plan, and financial projections. The business plan should be based on the goals established in the contract (or license) under which the companies will provide services. This information will permit company management to make commitments to the competent authorities to achieve annual targets in areas such as coverage, quality of service, physical efficiency, commercial efficiency in billing and collections, operating costs, and financial self-sufficiency. These targets should be compatible with the goals agreed upon with the Bank in the action plans (paragraphs 2.10 and 2.11).
- c. Investments in infrastructure (US\$45 million)

Includes prefeasibility and feasibility studies and the execution of:

- i. **Investments in works (US\$42 million)** to rehabilitate existing works, to be allocated as follows: (i) 33% for CAASD for works to optimize systems, rehabilitate storage tanks, and metering; (ii) 33% for INAPA for optimization of infrastructure and metering; (iii) 19% for CORASAAN for works to optimize the distribution system, extend the drainage system, and metering; (iv) 10% for CORAAMOCA for water treatment, optimization of the system and metering; and (v) 5% for COAAROM for rehabilitation works. In the event that any of the companies is late in presenting investment projects and is not in a position to use the funds in the agreed period, a company that used its entire allocation may present additional projects and use the funds that are still available.
- ii. **Support for community management of rural water supply systems (US\$3 million).** Two main actions are

involved: (i) strengthening for INAPA's regional units in the areas of promotion, technical assistance and training in methodologies for full community participation; and (ii) financing for investments in rural water supply systems. There will be about 20,000 beneficiaries, or less than 1% of the rural population

**Environmental and social review:**

The overall socioenvironmental impact of the project will be highly positive. The new institutional framework and modernization of the way in which the operators are organized will improve the quality of services, increase their coverage, and reduce water pollution. The direct negative impacts of the investments in emergency works and rehabilitation of potable water and sewer systems have been identified and detailed measures to mitigate them have been included in the ESIR. Program funds will also be used to finance two environmental audits. The first will verify the performance of the ad hoc mechanism for environmental evaluation and control after the emergency works are completed. The second will evaluate implementation of the recommendations to be included in the environmental studies and will be performed during execution of the investments in infrastructure (paragraph 3.26).

**Benefits:**

The project will help to improve national potable water and sanitation services in the medium term, with the levels of coverage and quality established by the component authority, at the lowest possible cost, under financially and environmentally sustainable systems that will reduce dependency on government transfers to finance investments in the sector.

To achieve these objectives, the project will help convert the operators into government-owned stock companies able to perform as private companies on competitive markets. This will encourage participation by the private sector in operating potable water and sewage systems in the short term and will facilitate their involvement in management and investments in the long term.

**Risks:**

The main risks of this operation stem from the reform process and include the following.

1. Difficulties in getting the framework law through congress

The process of reform in the sector requires a broad consensus from the main political parties and power groups on the national level. Congress, which must pass the legislation required for the reform, is controlled by the opposition. Also, presidential elections will be held in June 2000. Although it is acknowledged

that the reform program is based on the initiative of experts in the sector and is not politically motivated, certain important aspects, such as residential metering and rate increases, could be placed on the agenda for political debate.

To counteract adverse reactions, the Technical Secretariat of the Office of the President, with support from the technical-cooperation project on reform of the sector, will organize events to obtain a consensus from key power groups, including parliamentarians and the leaders of political parties (paragraph 1.32). The parallel MIF technical-cooperation project to install the new legal framework will also carry out a campaign to promote the program to reform the potable water and sanitation sector (annex III). The present project will also contribute to these initiatives, seeking support from all the players involved, and will include campaigns to raise user awareness. Also, the three-stage design of this operation, with eligibility criteria linked to progress in implementing the reform, is intended to foster continuity in the process. Accordingly, initial financing will be provided for emergency works and institutional development to produce a visible impact in the short term. The larger disbursements for rehabilitation and expansion of infrastructure will be contingent on the passage and enactment of the new legal framework for the sector.

2. Inconsistencies in rate levels and government transfers to the operators

If the operators are to become financially viable, they will have to make significant improvements in efficiency and their rates will have to be readjusted, supplemented by central government transfers. To minimize the possibility that the executive branch will postpone the necessary increases in rates or be reluctant to make the transfers to operators, the contracts with the operators (which will be public) will establish authorized rates to be charged to users and the corresponding transfers from the government to the operators.

3. Interference with independent management by the operators

The most delicate risk will be persistent interference by the authorities in the technical and administrative management of the operators. This risk will be mitigated by establishing lead and regulatory agencies, organizing the main operators as stock companies with representatives of civil society on their boards of directors, and establishing contracts between the operators and the

pertinent authorities. Failure to meet the contract targets will be an early indicator that such interference continues to exist. If the performance of any company is unsatisfactory (i.e., if it fails to comply with its action plan) and/or if the authorities opt to concede the services to private operators, the Bank would support the concession process under an operation with MIF funding. The MIF operation would cooperate with the authorities throughout the entire process, including preparation for bidding by private companies, an active search for interested parties and contract preparation.

**Exceptions to  
Bank policy:**

None

**Relationship of  
the project to  
Bank country  
and sector  
strategy :**

The project is consistent with Bank and country strategy to promote the modernization and reform of public services and foster private-sector participation and decentralization as instruments to expand the coverage and improve the quality of public services.

**Poverty  
targeting and  
social equity  
classification**

This operation qualifies as a social equity project as described in the key objectives of Bank activity set forth in the Report on the Eighth General Increase in the Resources of the Bank (document AB-1704) (see paragraph 4.29). It does not qualify as a poverty-targeted investment (PTI) (see paragraph 4.29). However, the improvements in the coverage and quality of potable water and sanitation services will particularly benefit people with limited access to those services living in marginal urban zones, small towns and rural areas, whose incomes are generally below the national average (paragraph 4.30).

**Procurement**

Contracts for works, consulting services and equipment financed with proceeds from the Bank loan will be let through bidding that conforms to Bank rules and procedures. International competitive bidding will be held for: (a) **civil works** costing US\$1.5 million and over; (b) **consulting services** worth more than US\$200,000; and (c) **equipment** worth US\$250,000 and over. For bids and purchases below these limits, the procedures established in paragraph 3.22 will be followed.

**Special  
contractual  
conditions**

Once the Bank's standard conditions precedent to the first disbursement have been met, up to US\$500,000 from the loan could be disbursed for any of the project activities included in the item 'management and coordination'.

The Conditions precedent to the disbursement of up to an

additional US\$1.4 million for project management and coordination; up to US\$10.9 million for the technical assistance component; up to US\$8.6 million for the demonstration and emergency works component; and up to US\$3 million for support for community management of rural water supply systems under the infrastructure investment component are as follows:

1. Submission of the framework law regulating the potable water and sanitation sector (framework law) to congress (paragraphs 1.28 and 3.4).
2. Contracting of the firm that will act as the principal executing unit (PEU), including an environmental specialist (paragraphs 3.4 and 4.6);
3. Entry into force of the Operating Regulations for the investment and infrastructure component; and
4. Individual authorization for disbursements of these funds to each of the corporations (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA) will be given when the pertinent corporation has complied with the following conditions, in addition to those stipulated in 1, 3 and 3 above:
  - a. Signature by the corporation and the government of action plans establishing benchmarks (efficiency, quality of service and commitments to rate adjustments and restructuring of the suppliers and the institutional framework for the sector) (annex IV), as agreed in advance with the Bank.
  - b. Placement in effect of the following legal documents signed by the corporation and the borrower: (i) the respective provisional performance contracts; and (ii) agreements on the transfer of project funding to the corporations. The transfers should be made in the form of loans, under terms agreed upon in advance with the Bank, except for the funds for INAPA for management and coordination, technical assistance and investments in rural systems, which will be nonreimbursable (paragraphs 2.11, 3.4 and 3.19).

Conditions precedent to the additional disbursement of up to US\$12 million for the infrastructure investment component:

1. Entry into force of the framework law (paragraph 3.7);
2. Individual authorization for disbursement of these funds to each of the corporations (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA) will be given when the corporation concerned has complied with the following conditions, in addition to those stipulated in paragraph 1 above: (a) the corporation has become a stock company, except for INAPA, which should be operating on the basis of independent units, in accordance with its business plan; (b) the corporation has signed its license contract with the government; (c) the objectives and commitments established in the action plans agreed upon in advance with the Bank (annex IV) have been fulfilled; and (d) the ad hoc mechanism for environmental evaluation and control is operating properly (paragraphs 3.7, 4.5 and 4.6).

Conditions precedent to the additional disbursement of up to US\$23 million for the infrastructure investment component:

1. ONAPAS and CORSAS, or the lead and regulatory agencies of the sector concerned, are operating and carrying out the functions established in the framework law (paragraph 3.8).
2. The rate and investment policies necessary to guide the operation of the sector regulatory agency have been approved and placed in effect (paragraph 3.8).
3. Individual authorization for disbursement of these funds to each of the corporations (CAASD, CORAASAN, CORAAMOCA, COAAROM and INAPA) will be given when, in addition to complying with the conditions mentioned in paragraphs 1 and 2 above, the corporation concerned: (a) has complied with the goals and commitments established in the action plan agreed upon in advance with the Bank (annex IV); and (b) the ad hoc mechanism for environmental evaluation and control is operating properly (paragraphs 3.8, 4.5 and 4.6).

Other conditions:

1. During the project, the government undertakes to cover the corporations' losses through transfers, until the new rate policy and rate increases, coupled with improvements in efficiency, permit the operators to be self-sustaining (paragraphs 3.19 and 4.24).



2. CORAAMOCA and COAAROM agree to hire a private party to manage each company's operations prior to the third year of this program, thus complying with the efficiency and performance goals agreed to with the authorities in their provisional contracts or licenses, as pertinent (paragraph 2.11).

The loan contract will also contain the Bank's standard conditions precedent to the first disbursement, its standard conditions for operations of this kind, and its normal requirements regarding auditing, reports, periodic meetings, inspections, maintenance, and procurement.

Compliance with all the conditions will be verified during the administrative and evaluation missions.